

## **Private Company Financial Reporting Committee**

401 Merritt 7, PO Box 5116, Norwalk, Connecticut 06856-5116 203-956-5218

e-mail: jhodell@fasb.org Fax: 203-849-9714

JUDITH H. O'DELL

Chair

### **PCFRC Meeting Highlights May 10-11, 2007**

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Chicago, Illinois

All PCFRC members were in attendance except Carl Bagge (both days). Other participants for parts of the meeting were:

Financial Accounting Standards Board (“FASB”) – George Batavick, Russ Golden

FASB Staff: Paul Glotzer, Terri Polley

AICPA Staff: Bob Durak, Dan Noll

#### **Committee Housekeeping Matters**

The PCFRC discussed and concluded on several matters concerning the operations of the committee and other administrative business.

#### **Background on Private Company Financial Reporting**

A brief historical background about private company financial reporting was presented to the committee.

#### **Background on How FASB Operates**

George Batavick and Russ Golden of the FASB talked about the nature of the FASB and how it operates, as an educational session for the committee members.

#### **PCFRC Output**

The PCFRC discussed the nature of the output that it would be providing the FASB and decided that the PCFRC would deliver formal position papers, in the form of recommendations, to the FASB when the PCFRC believes differences in generally accepted accounting principles (“GAAP”) related to private companies are warranted.

## **Committee Objective 1 – Individual Resources to the FASB**

PCFRC members serve as individual resources to the FASB, EITF, and FASB staff during FASB staff research. The committee decided that when these requests arise from the FASB, the entire PCFRC will be included. After the response date, the PCFRC will be given a summary of the individual responses provided by the individual members of the PCFRC.

## **Committee Objective 2 – Prospective GAAP**

The PCFRC makes formal recommendations to the FASB on prospective standard setting activities. The PCFRC discussed the standard setting activities ongoing at the FASB and decided to address the projects listed below. In some cases, separate task forces or working groups of PCFRC members were created to address a project.

- International Convergence
  - Certain PCFRC members will monitor this project.
- Liabilities and Equity
  - Task force formed to address this project.
- Financial Statement Presentation
  - Task force formed to address this project.
- Leases
  - Task force formed to address this project. PCFRC will initially focus on the scope of this project.
- Subsequent Events
  - The PCFRC discussed this project and its issues and decided upon certain recommendations to the FASB. See below for more information.
- FASB 133 Hedging
  - The PCFRC has an interest in this project and certain committee members will monitor this project.
- Business Combinations
  - Task force formed to address this project.
- Small- and Medium-Sized (“SME”) Entities (IASB-related)
  - The FASB can arrange an in-depth briefing on this project from the IASB. Certain PCFRC members will monitor this project.
- Revenue Recognition
  - This project is further out on the horizon.

As the PCFRC further studies the timetable for the projects above, it will develop its priorities from a timing perspective.

## **Proposed FASB FSPs**

The PCFRC will address Proposed FSP FAS 154-a—*Considering the Effects of Prior-Year Misstatements When Quantifying Misstatements in Current-Year Financial Statements*

## **Potential FASB Projects**

The PCFRC will address a potential FASB project about defining a private company.

## **Committee Objective 3 – Existing GAAP**

The PCFRC will address certain existing GAAP topics that have a broad impact on private companies. The PCFRC discussed what existing GAAP they should initially address, in connection with their objective to make formal recommendations to the FASB on existing GAAP:

- FIN 48
- FIN 46R
- FASB 123R

FIN 48 was selected first because of its immediate effect on the PCFRC's constituency.

## **Audience Open Microphone**

Certain members of the audience addressed the PCFRC and expressed their views on relevant topics. The Committee thanks those individuals for their input. Greg Edwards, of the Canadian Institute of Chartered Accountants ("CICA"), was asked to address the PCFRC. Mr. Edwards informed the Committee about what the CICA has been doing to address private company concerns in Canada.

## **"User" Committee Members' Use of GAAP Financial Statements**

Members of the PCFRC who work in the lending, private equity, and surety industries and who therefore use private company financial statements, walked the PCFRC through the processes they use to make lending, investment, and bonding decisions. The PCFRC gained a deeper understanding of the models that lenders, investors, and surety professionals utilize and what financial information is critical to those members of the PCFRC.

The PCFRC discussed what the needs are of users of private company financial statements, how to identify those needs, and how those needs drive the demand for financial information.

The Committee discussed the current use and value of GAAP financial statements to users of private company financial information in light of the fact that such users often have access to much more internal financial information at a private company.

The PCFRC tentatively decided that as they conduct their operations, they will focus primarily on user needs, determining whether certain prospective and existing GAAP-related financial information is useful to those needs. If user needs are not a strong indicator in some cases, the PCFRC will consider looking at the costs associated with complying with certain GAAP requirements.

### **Subsequent Events**

The PCFRC considered the FASB's project on Subsequent Events. The objective of this project is to establish general standards of accounting for and reporting of events that occur subsequent to the balance sheet date that would replace existing requirements that are currently contained in the auditing literature. A further objective of the project is to consider whether certain minor differences between U.S. GAAP and the corresponding international financial reporting standard could be eliminated or minimized.

After discussing the project and related issues, the PCFRC decided to send the FASB their recommendations. The recommendations decided upon at the meeting are:

1. The PCFRC recommends that FASB require private companies to disclose in a policy note to the financial statements the cut-off date in which subsequent events were considered by management for purposes of subsequent events analysis and disclosure.
2. The PCFRC recommends that the FASB stay the course on its current tentative decision not to converge with international accounting standards (paragraphs 65-67 of IAS 1) related to refinancing of short-term obligations and curing breaches of borrowing covenants.

Please visit [pcfrc.org](http://pcfrc.org) for the complete letter.

### **Uses of the PCFRC Web Site**

The PCFRC discussed the various ways that the committee's web site could be used to further their mission. The web site will be utilized to provide information and updates to interested parties and to help engage in two-way discussion with those parties.

### **Next PCFRC Meeting**

The PCFRC will hold its next meeting on July 26-27, 2007 in Denver. Major topics expected to be addressed include FIN 48 and FIN 46R.